



WASHINGTON STATE LEGISLATURE
Office of the State Actuary

November 23, 2005

TO: Steve Nelsen, Executive Director
LEOFF 2 Retirement Board

FROM: Marty McCaulay, FSA, EA, MAAA, Senior Pension Actuary *PMM*
Office of the State Actuary

CC: Matt Smith, FCA, EA, MAAA, State Actuary
Office of the State Actuary

RE: **PROPOSAL TO ELIMINATE EARLY RETIREMENT REDUCTION
FACTORS FOR CURRENT LEOFF 2 DUTY-RELATED
DISABLED RETIREES**

This memo presents the results of pricing the proposed removal of Early Retirement Reduction Factors (ERRFs) for current disabled retirees whose disabilities are duty-related.

Members Impacted

There were 42 disabled retirees in pay status as of September 30, 2004. Of these 42 members, only 19 had benefits reduced for early retirement age. We have no information about how many current disabled retirees are duty-related. We estimate that approximately 10 - 19 members could be affected.

Costs

Cost Summary				
	Increase in Contribution Rates*	Projected Cost (All Funds)		
		\$ in Millions		
		2006-07	2007-09	2006-31
Member	0.01%	\$0.1	\$0.2	\$2.0
Local Employer	0.01%	\$0.1	\$0.2	\$2.0
State	0.00%	\$0.0	\$0.0	\$0.0

* Rate increase effective September 1, 2006.

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Overall, this proposed post-retirement benefit adjustment would create a fully projected liability increase for LEOFF 2 of about \$1.4 million, which would result in a contribution rate increase of 0.01 percent for members after rounding and 0.01 percent for local employers. The state's contribution rate would not increase as a result of this benefit improvement. Because this proposal applies to a small group of existing disability retirees, the above rate increases would apply only to the closed group of current members, not to future entrants. A summary of the contribution rate increases and the resulting fiscal impact is shown above.

Assumptions

Our future duty-disability rate assumption varies by age. Since we do not have data revealing which disabled members were retired under duty-related causes, we applied this assumption to our currently disabled members according to their retirement ages to estimate how much of a liability change might be due to duty-related disabilities. The duty-related rates by age are shown below:

Proportion of Disablements Assumed Duty-Related by Age	
Age	Rate
20	0.9500
25	0.9247
30	0.9000
35	0.8746
40	0.8500
45	0.8000
50	0.7500
55+	0.7000

All other assumptions are the same as those disclosed in the 2004 Actuarial Valuation report.

Data

Valuation data as of September 30, 2004, was used for the pricing of this proposal.

Other Considerations

The liability increase for this proposal depends on the actual number of duty-related disablements that exist in the plan. If none of the currently disabled annuitants were duty related, the fully projected liability increase would be zero. If all of the currently disabled annuitants retired under duty-related conditions, the liability increase would be at the top of the range presented above. This results in a total rate increase of 0.01 percent before rounding. After rounding, the member rate increase is 0.01 percent and the employer rate is the same to ensure equal cost sharing.